2002 Wheat - Crop*Revenue* Coverage
Question and Answer Set

1. Q: What is Crop*Revenue* Coverage (CRC)?

A: CRC is an insurance program that guarantees a stated amount of revenue called the Final Guarantee. CRC covers revenue losses due to a low price, low yield, or any combination of the two. Since the protection of producer revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. Five key variables are Approved Yield, Coverage Level Percentage, Base Price, Harvest Price, and Production to Count.

2. Q: How is Approved Yield defined?

A: CRC's **Approved Yield** is the historical average amount of production per acre in the insured unit. It uses the producer's production records or yields assigned by the Federal Crop Insurance Corporation (FCIC). We use at least four crop years of yields to obtain the Approved Yield.

3. Q: What is CRC's Coverage Level Percentage?

A: The available CRC **Coverage Level Percentages** are 50%, 55%, 60%, 65%, 70%, 75%, 80%, and 85%. The Actuarial Documents identify the applicable counties where 80% and 85% options are available.

4. Q: What is CRC's Base Price and how is it defined?

A: CRC defines the **Base Price** for each wheat crop and state using the following methodology:

<u>Winter Wheat - (Insured as winter wheat), Chicago Board of Trade (CBOT)</u>
Alabama, Georgia, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, Missouri, North Carolina, Ohio, South Carolina, Tennessee, Virginia, and Wisconsin

Base Price (CBOT) - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's CBOT July soft red winter wheat futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by September 20 of the pre-harvest year.

<u>Winter Wheat - (Insured as winter wheat), Kansas City Board of Trade (KCBOT)</u>
Arizona, Arkansas, Colorado, Iowa, Kansas, Montana, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, and Wyoming

Base Price (KCBOT) - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by September 20 of the pre-harvest year.

<u>Spring Wheat - (Insured as spring wheat in counties with a 3/15 cancellation date, Minneapolis Grain Exchange (MGE)</u>
Colorado, Minnesota, Montana, North Dakota, South Dakota, and Wyoming

Base Price (MGE) - The February harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by March 10 of the harvest year.

<u>Spring Wheat - (Insured as spring wheat in counties with a 9/30 cancellation date), (KCBOT)</u>
Colorado, Iowa, Montana, South Dakota, Wisconsin, and Wyoming

Base Price (KCBOT) - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by September 20 of the pre-harvest year.

Wheat - Portland Grain Exchange (PGE)
California, Idaho, Nevada, Oregon, Utah, and Washington

Base Price (PGE) - The Portland Price equals the August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) **plus an adjustment equal to** the current five-year average difference between the August average daily settlement price for the nearby CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) and the August average daily settlement price for the PGE soft white wheat contract (rounded to the nearest whole cent). The Base Price will be released as an actuarial document addendum by September 20 of the pre-harvest year.

5. Q: What is CRC's Harvest Price and how is it defined?

A: CRC defines the **Harvest Price** for each wheat crop and state using the following methodology: *(The Harvest Price **IS NOT** the price a producer receives for his crop at the local elevator.)*

Winter Wheat - (Insured as winter wheat), (CBOT)
Illinois, Indiana, Michigan, Ohio, and Wisconsin

Harvest Price (CBOT) - The July 15 to August 14 harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by August 20 of the harvest year.

Winter Wheat - (Insured as winter wheat), (CBOT)
Alabama, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, and Virginia

Harvest Price (CBOT) - The June harvest year's average daily settlement price for the harvest year's CBOT July soft red winter wheat futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by July 10 of the harvest year.

Winter Wheat - (Insured as winter wheat), (KCBOT)
Iowa, Montana, Nebraska, South Dakota, and Wyoming

Harvest Price (KCBOT) - The July 15 to August 14 harvest year's average daily settlement price for the harvest year's KCBOT September hard red winter wheat futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by August 20 of the harvest year.

Winter Wheat - (Insured as winter wheat), (KCBOT)
Arizona, Arkansas, Colorado, Kansas, New Mexico, Oklahoma, and Texas

Harvest Price (KCBOT) - The June harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by July 10 of the harvest year.

Spring Wheat - (Insured as spring wheat), (MGE)
Colorado, Iowa, Minnesota, Montana, North Dakota, South Dakota, Wisconsin, and Wyoming

Harvest Price (MGE) - The August harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by September 10 of the harvest year.

Wheat - (PGE)
California, Idaho, Nevada, Oregon, Utah, and Washington

Harvest Price (PGE) - The August harvest year's average daily settlement price for the PGE soft white wheat contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars ($2.00), or greater than the Base Price plus two dollars ($2.00). The Harvest Price will be released as an actuarial document addendum by September 10 of the harvest year.

6. **Q: What is CRC's Final Guarantee?**

A: CRC defines the **Final Guarantee** as the number of dollars guaranteed per acre. The Final Guarantee is the greater of the Minimum or Harvest Guarantees, defined as follows:

(1) **Minimum Guarantee -** The Approved Yield per acre, multiplied by the Base Price, multiplied by the selected coverage level percentage.

(2) **Harvest Guarantee -** The Approved Yield per acre, multiplied by the Harvest Price, multiplied by the selected coverage level percentage.

7. **Q: Is the Minimum Guarantee a minimum amount of coverage that cannot decrease? (All prices used in the following examples are for illustration purposes only - they ARE NOT the actual prices that CRC might use.)**

A: Yes, the following wheat example explains CRC's basic principles.

Let us assume the example wheat policy's Base Price is **$3.30/bu** and the selected coverage level percentage is **65%**.

A wheat producer with an Approved Yield of **45 bu/acre** has a Minimum Guarantee equal to **$97/acre** (45 bu/acre * $3.30/bu * .65). The Final Guarantee cannot be less than $97/acre, but it can be greater if the Harvest Guarantee turns out to be greater than $97/acre.

8. **Q: What happens if the Harvest Guarantee is greater than the Minimum Guarantee?**

A: The Final Guarantee is the greater of the Minimum or Harvest Guarantees.
For example, assume it is determined that our example wheat policy's Harvest Price is **$3.50/bu**. CRC uses the Harvest Price to calculate a Harvest Guarantee equal to **$102/acre** (45 bu/acre * $3.50/bu * .65). The $102/acre Harvest Guarantee is greater than the $97/acre Minimum Guarantee. As a result, CRC establishes our example's Final Guarantee at **$102/acre**.

9. **Q: What is CRC's Production to Count?**

A: **Production to Count** equals harvested and appraised production from the insured acreage as outlined in the CRC Wheat Crop Provisions. Production to Count may also include quality adjustments described in the CRC Wheat Crop Provisions and special provisions.

10. **Q: How does CRC determine Calculated Revenue?**

A: CRC determines **Calculated Revenue** by multiplying the producer's Production to Count for the unit times the Harvest Price. Remembering that Calculated Revenue uses the CRC Harvest Price and **<u>not</u>** the price a producer might receive for the crop at the local elevator is very important. Calculated Revenue counts against the producer's Final Guarantee in determining indemnity payments.

Let us assume the producer in our example has Production to Count equal to **20 bu/acre**. Under these circumstances, the producer's Calculated Revenue is **$70/acre** (20 bu/acre * $3.50/bu).

11. **Q: How does CRC calculate an indemnity payment?**

A: If a CRC policy's Calculated Revenue is less than its Final Guarantee, then CRC pays an indemnity equal to the difference. For instance, our example's producer receives an indemnity payment equal to **$32/acre** ($102/acre - $70/acre).

12. **Q: What unit structures are available with CRC coverage?**

A: Growers may select Basic, Optional, or Enterprise Units based upon their farming operation. Definitions for each unit type are in the CRC Basic Provisions.

13. **Q: When does CRC make indemnity payments?**

A: If an indemnity payment is due under a Crop*Revenue* Coverage policy, CRC will pay as follows:

If we do not know the Harvest Guarantee at the time a loss is determined, then CRC pays adjusted losses in two segments.

(1) First, CRC pays an initial indemnity based upon the Minimum Guarantee.

(2) Second, once we know the Harvest Guarantee and if it is greater than the Minimum Guarantee, CRC recalculates the indemnity payment and pays the additional indemnity due.
If we know the Harvest Guarantee at the time a loss is determined, then CRC will pay adjusted losses based upon the Final Guarantee. The Final Guarantee is the greater of the Minimum or Harvest Guarantees.

We can only complete losses after the Harvest Price and Production to Count have been determined according to the policy and loss adjustment procedures established or approved by FCIC. Once FCIC publishes a Harvest Price, the company may set a crop yield point for each insured unit that will trigger a revenue loss payment. The company may publish the methodology that calculates the *Trigger Yield* with an explanation of the proper procedures to follow for claim payment.

14. **Q: How does CRC pay Late Planting, Prevented Planting, and Replanting losses?**

A: CRC's **Late Planting** provisions cover acres of the insured crop that are planted during the late planting period. The late planting period begins the day after the final planting date for the insured crop and ends 25 days after the final planting date. The Final Guarantee for each acre planted to the insured crop during the late planting period will be reduced by 1 percent per day for each day planted after the final planting date.

CRC's basic **Prevented Planting** coverage for prevented planting acreage equals 60 percent of the Final Guarantee for the acreage if it were timely planted. However, in return for an additional premium, the producer may increase his prevented planting coverage to 65% or 70% of the Final Guarantee as specified in the actuarial documents.

CRC offers **Replanting** coverage if the replanted acreage includes at least the lesser of 20 acres or 20 percent of the insured planted acreage for the entire unit. Also, the damage must show that the remaining stand will not produce at least 90 percent of the Minimum Guarantee for the affected acreage. The maximum replant payment per acre is the lesser of 20 percent of the Minimum Guarantee for the affected acreage, or 3 bushels multiplied by the Base Price, multiplied by the producer's insured share.

15. Q: Who is eligible for CRC coverage?

A: Any producer eligible for MPCI coverage is eligible for CRC coverage subject to the additional items below:

(1) The crop must be eligible for CRC coverage.

(2) The insured crop must be found in states that we have included in our FCIC-approved Standard Reinsurance Agreement (SRA) for the Crop*Revenue* Coverage program.

16. Q: How is the CRC premium calculated and when is the premium due?

A: CRC uses the **Crop*Revenue* Coverage Continuous Rating Premium Calculation Guide** to estimate the producer-paid premium for insurable crop acreage. Premiums for CRC are earned and payable when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.

17. Q: Does the producer need to submit a separate CRC application for each county?

A: A producer must submit a separate CRC application for each county or all counties may be insured on one application if so designated.

18. Q: Is CRC a continuous policy?

A: CRC is continuous and provides coverage for each succeeding crop year, unless canceled by a time specified in the CRC policy.

19. Q: Is Option A and Option B of the Winter Wheat Coverage Endorsement available with the CRC Wheat policy?

A: Option A and Option B are available in the applicable states with counties using both fall and spring final planting dates.

20. Q: Does CRC use written agreements?

A: Written agreements may apply to CRC for **rating purposes**.

The insured must request a written agreement to insure acreage in counties without a CRC program, to receive a rate reduction on land classified as high risk, or to insure unclassified land. Acreage in counties without CRC program may be insured using a written agreement only if the county without the CRC program adjoins a county with a CRC program for the applicable crop. The reinsured company will transmit the request to the appropriate RMA Regional Office (RO). To ensure the rates used are actuarially appropriate, the RO will determine, from the physical characteristics of the acreage, the farming practices to be used, the risks involved, and whether there is a similar situation in a county for which a CRC rate has been provided. If a similar situation exists in a county where a CRC program is available, the insured can obtain insurance with that CRC rate. If a similar situation does not exist, the request for a written agreement will be denied.

The applicable crop specified in any written agreement must be eligible for CRC coverage. Each written agreement will be valid only for one crop year. If a written agreement is not specifically renewed the following year, insurance coverage for subsequent crop years will be in accordance with the printed policy.

21. Q: Does CRC use written unit agreements?

A: The insured must request Optional Units by written agreement to create Optional Units across section lines or from oversized units. The reinsured company will determine whether the acreage is located in a high risk area and if so, the written agreement will be denied. The total acreage in the oversized section will be divided into parcels of not less than 640 acres each. Physical features such as canyons, lakes, rivers, mountains, or irrigated systems will be used to set the boundaries for the parcel. Each parcel will be considered to be a separate section for the purposes of determining Optional Units only. Such features must present a significant obstacle to farming and not be under the insured's control. Such written agreements must follow the guidelines for written unit agreements established by the Written Agreement Handbook (FCIC 24020).

22. Q: Can the producer put the production from separate insurance units in a common storage structure (more than one unit's production in the same bin, etc.) without notifying the insurance provider?

A: Policy provisions require that the insurance provider be able to determine harvested production separately by unit. If the producer does not have adequate production evidence by unit the producer may not have a payable claim. The harvest price for most CRC policies is determined after the harvest season. As the harvest price is used to determine the value of the production, it is possible to have a payable loss even though the unit yield exceeds the bushel guarantee.